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MEMORANDUM

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2009 APR -8 P 1:44

TO: Docket Control

FROM: Ernest G. Johnson  
Director  
Utilities Division

EA for EGJ

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

DATE: April 08, 2009

RE: **STAFF RESPONSE - IN THE MATTER OF THE REVIEW AND POSSIBLE REVISION OF ARIZONA UNIVERSAL SERVICE FUND RULES, ARTICLE 12 OF THE ARIZONA ADMINISTRATIVE CODE (DOCKET NO. RT-00000H-97-0 137)**IN THE MATTER OF THE INVESTIGATION OF THE COST OF  
TELECOMMUNICATIONS ACCESS (DOCKET NO. T-00000D-00-0672)

By Procedural Order dated March 20, 2009, Administrative Law Judge ("ALJ") Jane Rodda required Staff to file by April 10, 2009, Comments and Recommendations concerning the appropriateness of including Qwest Corporation's switched access charges as part of phase II of the Access Charge Docket, and the relationship, if any, between these dockets and the Renewal of Qwest's Price Cap Plan in Docket No. T-01051B-03-0454. Staff believes that Qwest's Access Charges should be addressed in the pending Place Cap Plan Renewal docket. Staff's position on this issue is unchanged from its position set forth in its November 3, 2003, Memorandum of Law on Process Issues in this Docket which addressed the bifurcation issue.

ALJ Dwight Nodes' November 17, 2003, Procedural Order in this docket reached the following conclusion on the issue of bifurcation:

The general consensus of all parties is that access charges may not be reduced outside the context of a rate setting proceeding unless, at a minimum, a revenue-neutral mechanism is developed. Due to these limitations, and because Qwest has requested a review of its current rate cap plan in Docket No. T-01051B-03-0454, it is appropriate to consider Qwest's access charges in conjunction with its rate cap review, where all of Qwest's rates will be analyzed. However, the independent telephone company access charges must be considered separately because there are no existing price cap plans or rate cases currently pending for those entities. Accordingly, the Access Charge Docket will be bifurcated into two phases, Phase I will address Qwest's access charges in combination with the review of Qwest's price cap plan. Phase II will consider access charges for all other telephone carriers that provide access services.

Arizona Corporation Commission  
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As a result of the bifurcation, Qwest's Access rates were addressed in the context of its initial Price Cap Plan and the renewal of its Price Cap Plan. Qwest currently provides service under the terms of a currently effective and negotiated Renewed Price Cap Plan, which was approved by the Arizona Corporation Commission ("Commission") in Decision No. 68604, dated March 23, 2006. Prior to that decision, Qwest provided service under the terms of the Price Cap Plan, approved by the Commission in Decision No. 63487, dated March 30, 2001.

Under the terms of the initial Price Cap Plan implemented April 1, 2001, Qwest was required to reduce intrastate switched access charges. Section 3(d) of the Plan provides:

... Intrastate Switched Access Services which are to be reduced by \$5 million per year for the duration of the initial term of the Plan, with further reductions in Intrastate Switched Access Service rates taking place during any subsequent term of the Price Cap Plan with the objective of obtaining parity with interstate switched access rates.

Under the terms of the Renewed Price Cap Plan implemented on April 1, 2006, Qwest was required to reduce intrastate switched access charges. Section 8 of the Renewed Price Cap Plan states:

Qwest shall make Switched Access Charge (Basket 4) reductions totaling \$12.0 Million at the start of Year 1 of the Renewed Price Cap Plan. This shall be a permanent reduction in Switched Access Charges. The Parties agree that the \$12 Million reduction shall be revenue neutral. Qwest's revised Switched Access Charge rates are attached as Attachment C.

As a result of Initial and Renewed Price Cap Plans, Qwest has implemented \$27,000,000 in annual Switched Access Charge rate reduction, based on minute quantities that existed at the time that the plans were implemented.

Staff believes that it would not be appropriate to include Qwest's access rates in Phase II of this docket for two reasons. First, as noted above, Qwest access rates have in fact been reduced as a result of the two Price Cap Plans that have been implemented since 2001. Second, and more importantly, because Qwest rates are currently subject to a Price Cap Plan (which was negotiated by Qwest, Staff and some of the same parties that are participating in this docket) and because a review of the currently effective Price Cap Plan is currently pending, Staff believes that it would more appropriate to address Qwest's access rates in the Renewed Price Cap Plan Review docket.

In summary, Qwest's Access charge levels should continue to be addressed in the Renewed Price Cap Plan docket. Notwithstanding, Staff believes that the ALJ's inclusion of Qwest in this generic docket designed to address policy issues concerning access charges, is appropriate.

Service List for: Investigation of the Cost of Telecommunications Access  
Docket Nos.: RT-00000H-97-0137 and T-00000D-00-0672

\*\* Parties marked with a "\*" have agreed to accept service electronically.

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